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Cooperatives



ONE OF FOUR
KINDS OF
BUSINESS
FIRMS

EDUCATIONAL AID 7 • FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

**FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250**

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives, and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

July 1966

Cooperatives -- One of Four Kinds of Business Firms

The following material has been prepared as a guide for a team presentation. The two team members should tell the story in their own words, based on the written material, but not necessarily confined to it exclusively.

The cartoon figures and the suggested captions can be used to construct a flannelgraph or other type presentation. Experience of those who have used a flannelgraph or cartoons to illustrate the talk has been good. Listeners are much more interested and attentive when the presentation is backed up with visual aids. And they tend to remember better what they have heard if the hearing is coupled with seeing.

1st Member

Captain or leader introduces himself and his teammate.

The captain in his opening statement can explain how he and other members of a youth group became interested in the different ways they had observed people doing business. The members themselves had been buying, selling, borrowing, insuring or doing other business with various firms. They had noticed that some of these companies had one man's name; some had two or more.

This illustrated talk is suggested for use by two teen-agers such as 4-H club members. It could be given by one member or by an adult leader or county extension worker in a meeting of a club. It is assumed that the 4-H club or at least the members giving the talk have visited the different kinds of business firms and talked with the managers as well as parents, teachers, and others about the ways of doing business. The talk is designed to be appropriate for meetings of cooperatives, at civic clubs, or in church groups.

Then there were others with special names of their own, and some of these used the word cooperative.

The captain then tells about asking their adult leader or county agent about the difference in these firms, or he may point out that the leader got them to talking about the businesses and whether or not there was any advantage in one over the other. He then calls on his teammate to tell how the club members went about learning more than they already knew.

2nd Member

The second member then relates the different steps taken by the club to get more information about the different kinds of business firms. This would probably include a "talk fest" or "bull session" where each member told what he or she knew. Individually they probably talked with their parents and maybe others and asked them questions. The group got other facts from their adult leader or agent. The club may have visited two or more businesses and asked the managers how they were run. Some of their families may have farm partnership arrangements with them or with older brothers. Several parents are probably members of cooperatives, and some may own stock in non-cooperative corporations. Some members read circulars or newspaper stories that gave other facts. He then asks the first member to tell about the individual business firm.

1st Member

The first member can say that individual businesses are by far the most numerous of all. They are so common we take them for granted. Everybody knows of stores, garages, trucks, sawmills, cotton gins, and many other kinds of business run by one person. The greatest number by far are the farms, nearly all of which are individual family affairs.

In an individual business one person is the owner. He puts in his own money or what he has borrowed. He makes the decisions. Often he does a large part or all the work as is usual on the farm. However, he may hire others to help him.

Some advantages of the individual businesses are:

Greater freedom to start and operate as the owner wishes.

All the profits belong to the owner.

Some disadvantages are:

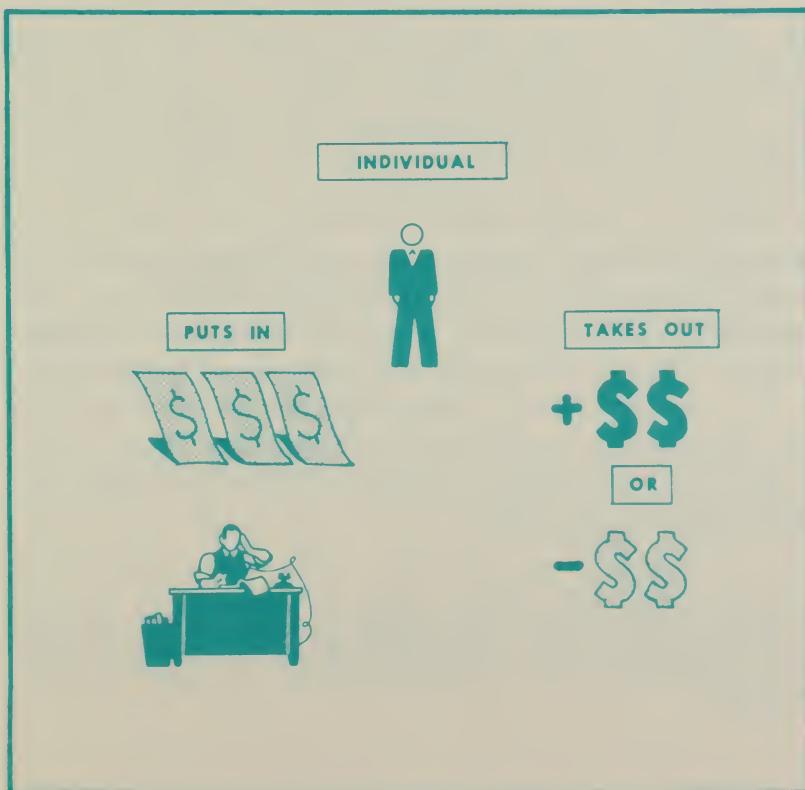
Often it's hard to get enough money.

Owner has to take all risks and pay all losses.

Many times there is no one to take over when the owner retires or dies.

(The member sticks his symbol for an individual to the board as he begins his talk, and as he proceeds places his heading and symbols of what the owner contributes under him to the left. Then on the right he puts his heading and symbols for returns which might be represented by black dollar marks for gains and red for losses.)

He then calls on the second member to tell about partnerships formed by two or more people.



2nd Member

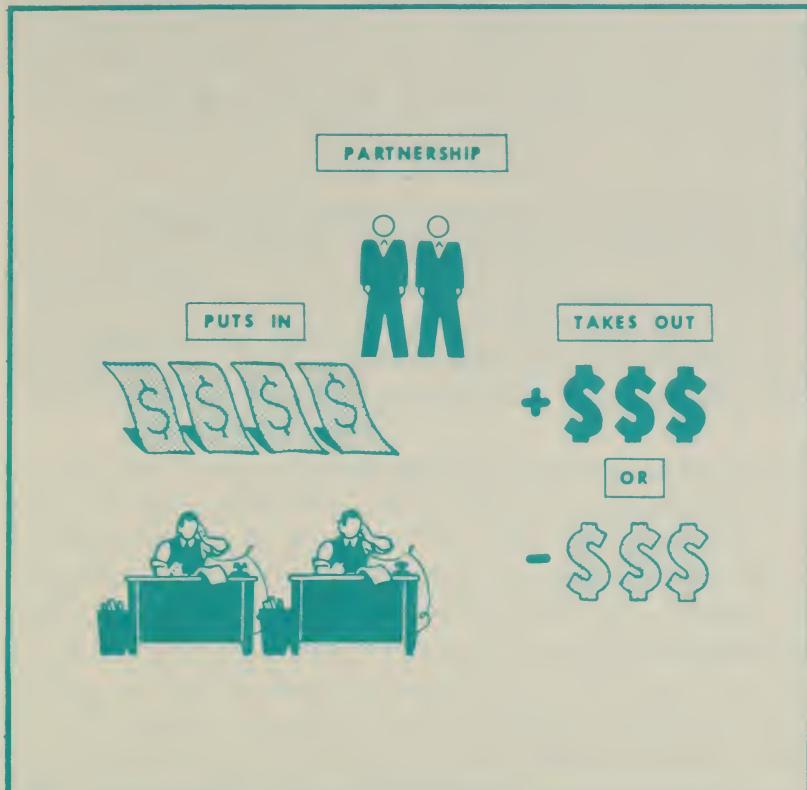
The second member points out that two or more people become partners because they can do better by teaming up than by going it alone. Maybe it's just a case of putting together what they have of the same things to do a bigger business. More likely one partner has more money or other capital, while the other can devote more time and labor to the business. Sometimes one is getting older and wants to be less active, while the younger man is eager to learn the business and get started in it. This is often the case in father-son partnerships in farming.

If one partner falls down on his job or makes a bad deal for the firm all the partners lose. They may lose money they as well as others have put in the business. Another disadvantage is that when one of the partners dies or retires the others must make a settlement and usually pay out his part in the business.

The member can probably name several partnerships in both farming and other businesses. Maybe he will know of one or more where there is a written agreement that spells out just what each partner is to do. The partnership agreement either written or oral also tells how decisions are to be made and how profits or losses are to be divided.

(The speaker here follows the same procedure with his illustrations as with the individual except that two individuals are fastened to the background. The first symbols can be removed and the new and old put up or the old left and the new added. As the contributions are mentioned it is indicated that they are made by one or by the other partner, and the returns are separated as belonging to the two.)

He then calls on the first member to tell about corporations where a lot of people may be owners of one business.



1st Member

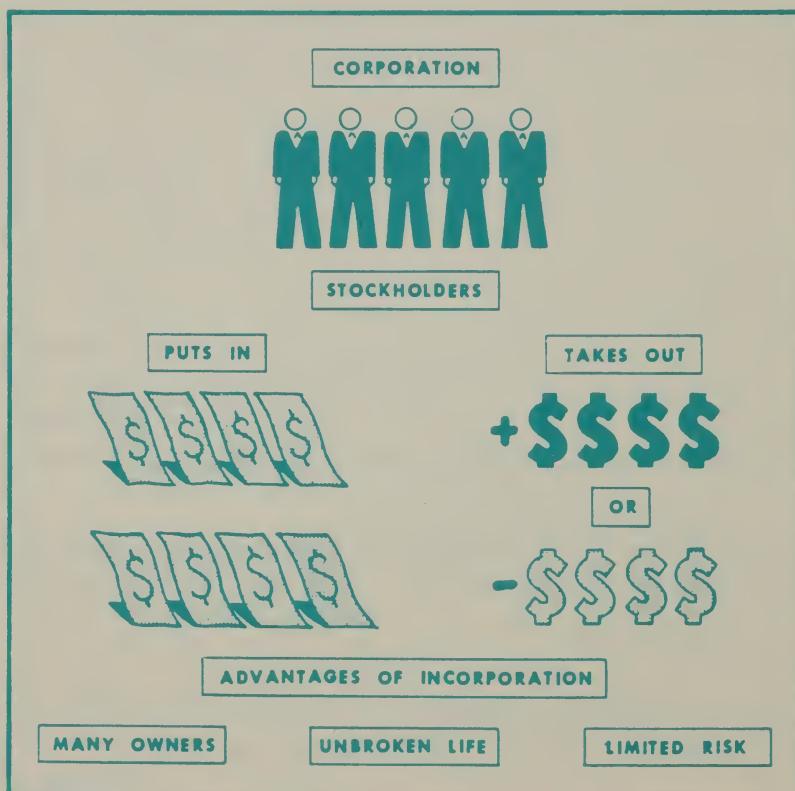
The first member can say yes, we found that the number of people who may be owners is one of the important things about a corporation. This makes it possible to get a lot of money in one business. People put money into a corporation by buying shares of stock. He may mention a railroad or other well known corporation that has thousands of stockholders. He should also name some small local corporations.

He can then point out that the club members learned that people who wish to form corporations have to get permission from the Government, usually the State Government. The paper that gives this permission to operate is called a charter. After they get a charter they are said to be incorporated. This charter and the by-laws of the corporation tell how it is to be run.

If profits are made they belong to the stockholders in proportion to the shares of stock that they own. Normally the stockowners get this return for the use of their money without having to do anything besides buy the stock.

He can then point out that they learned two other reasons why corporations are formed. The firm can go ahead and do business by getting new stockholders and new officers after the old ones leave, sell out, or die. The business of an individual or partnership has to be settled and either wound up or started anew when any owner goes out.

Also if an incorporated business fails--goes bankrupt--the stockholders normally lose only what they put into the business when they bought stock. If the firm that is run as a partnership or individual business goes bankrupt the owners are individually responsible and it may take everything they have to pay the debts of the business.



(The symbols for partnership should be taken down before starting with the corporation. As he gives his information about this type of firm the speaker puts up his figure representing it and below puts his symbols for dollars for investment and dollars for returns as with the individual and the partnership. He then puts up a strip labeled Advantages of Incorporation and under it, as he talks, puts three more, worded, Many Owners, Unbroken Life, Limited Risk.)

He then asks the second member if a cooperative is a corporation.

2nd Member

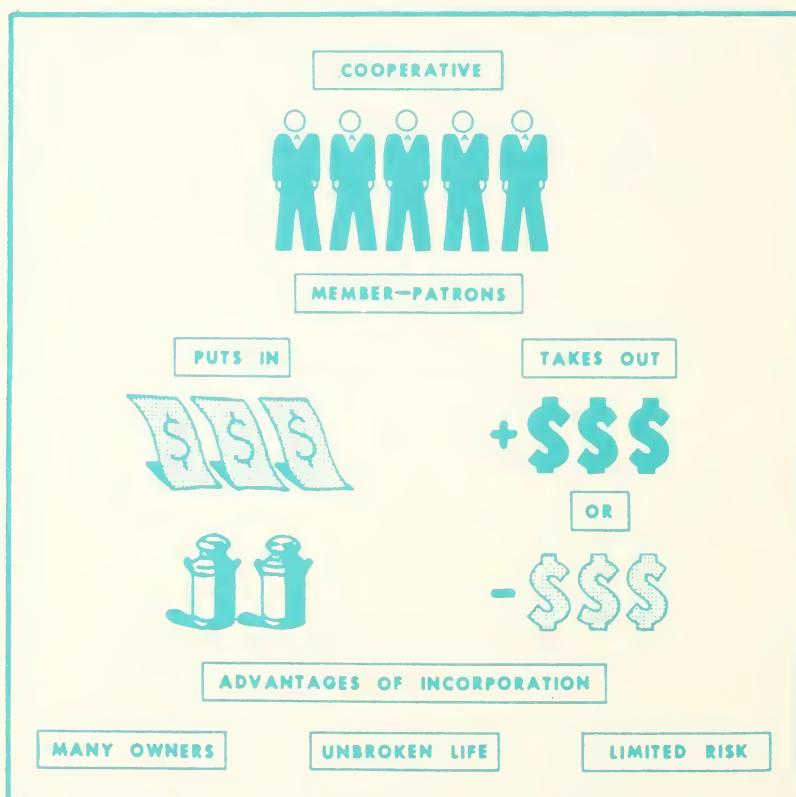
The second member can say yes, a cooperative is almost always a corporation. A cooperative, however, gets its charter under a special law that tells something of how it has to be run. But it still is just another kind of business corporation. Churches, lodges, colleges and a lot of other organizations are also corporations, but are organized for other purposes, not to do business.

The group learned that the cooperative corporation is like the ordinary corporation in the three advantages it has over individuals and partnerships. It can keep on doing business while the membership changes. The owners usually are only liable for debts of the firm up to the amount of the money they have in the association. And a large number of people may join together in order to run a large business.

In a cooperative, however, members not only put in their money for it to use, but they also agree to do business with it. This may be bringing their products for the cooperative to sell, coming to it for the supplies or goods they buy, or getting needed services from it. This might be credit, insurance, electricity, irrigation water or any number of other services.

In fact the members found that the patronage the members bring to their cooperatives is even more important than the amount of money they put in it. Usually if a large volume of business is done the cooperative is a success. Any net margins made after paying expenses belong to the members. They may pay themselves some interest on their investment, but most of the savings are divided in proportion to the business they have done with their cooperative.

(As the talker tells about the cooperatives he leaves the bottom part of the corporation illustration giving the advantages of incorporation, but removes the corporation symbol and substitutes the one for cooperatives. Then he adds the symbols for patronage to the dollar symbols representing investment and puts the one for member-patrons in place of the one for stockholders.)



Other Publications Available

Farmer Cooperatives in Our Community. Educational Circular 12. A. W. McKay.

The American Private Enterprise System. Educational Aid 5. Oscar R. LeBeau.

The Business Rights to Main Street Under Private Enterprise. Educational Aid 1-G. J. H. Heckman.

Farmer Cooperatives--What They Are and What They Are Not. Reprint 255. Marvin A. Schaars.

A copy of each of these publications may be obtained upon request while a supply is available from--

Farmer Cooperative Service
U.S. Department of Agriculture
Washington, D.C. 20250